

Message Text

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ORIGIN EB-08

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SUBJECT:CIVAIR: POSTPONEMENT OF US-AUSTRALIA NEGOTIATIONS
REF: CANBERRA 6698

1. DEPT RECOGNIZES PRECIPITOUS NATURE OF US CANCELLATION
OF CIVAIR TALKS BUT BELIEVED HOLDING TALKS WOULD NOT HAVE
BEEN PRODUCTIVE AND, IN FACT, WOULD HAVE BEEN DETRIMENTAL
TO US INTERESTS. CONSENSUS REACHED AT AUG 21 INTERAGENCY
MEETING WAS THAT ONLY OPTION OPEN TO US LEADING TO CON-
TINENTAL'S ENTRY INTO AUSTRALIAN MARKET WOULD BE TO FOLLOW
PROCEDURES SET FORTH IN 1971 MEMORANDUM OF UNDERSTANDING.
HOWEVER, KEY TO SUCCESS OF THIS SCENARIO IS READINESS OF
CONTINENTAL TO INAUGURATE SERVICE NOT LONG AFTER THE 60-DAY
PRENOTIFICATION REQUIRED IN THE 1971 UNDERSTANDING FOR
CAPACITY INCREASES. UNFORTUNATELY, CONTINENTAL REQUIRES
AT LEAST SIX MONTHS PREPARATION TO INITIATE SERVICE TO
AUSTRALIA. THEREFORE, IF USG HAD INSISTED ON CONTINENTAL'S
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BEGINNING OPERATING DURING AUGUST NEGOTIATIONS, GOA COULD
HAVE GIVEN 6 MONTHS NOTICE AND MOU WOULD HAVE BEEN TERMI-
NATED BEFORE CONTINENTAL EVEN STARTED OPERATIONS. IT IS
FEARED THAT, IN ABSENCE OF UNDERSTANDING, GOA WOULD THEN
FEEL FREE TO DISAPPROVE CONTINENTAL'S SCHEDULES UNILATE-
RALLY. IF US DEL DID NOT ANNOUNCE CONTINENTAL'S PLANS IN
AUGUST TALKS, POSITIONS WOULD HAVE REMAINED DEADLOCKED AND

WOULD HAVE

SERVED NO PURPOSE. IN ADDITION, INTERAGENCY GROUP AGREED IT WOULD BE BEST TO COMPLETE ARRANGEMENTS WITH FIJI AND NEW ZEALAND BEFORE MEETING WITH AUSTRALIA SO THAT IF GOA MOVES TO ABROGATE AIR TRANSPORT AGREEMENT AS WELL AS UNDERSTANDING, CONTINENTAL WILL BE ABLE TO CONTINUE SERVICE TO SOUTH PACIFIC. DEPARTMENT HAS ALREADY CABLED SUVA AND WELLINGTON INQUIRING AS TO POSSIBILITY OF TALKS IN LATE SEPTEMBER/EARLY OCTOBER. FYI, CONTINENTAL IS MOVING AHEAD WITH ITS STARTUP PREPARATIONS. USG IS PRESENTLY CONSIDERING POSSIBILITY OF CALLING FOR TALKS IN FEB 1979 BUT EMBASSY SHOULD WAIT FOR DEPT'S INSTRUCTION BEFORE APPROACHING GOA. END CONFIDENTIAL.

2. BEGIN UNCLASSIFIED. FOLLOWING SECTION CONTAINS MATERIAL FOR USICA BACKGROUNDER: USG DEEPLY REGRETTED NECESSITY TO ASK FOR POSTPONEMENT OF CIVIL AVIATION TALKS THAT WERE TO START IN WASHINGTON ON AUG 28. CONTINENTAL AIRLINES' NOTIFICATION THAT ITS STARTUP PERIOD WILL BE LONGER THAN HAD BEEN ANTICIPATED AND THE NON-ISSUANCE BY THE GOA OF ITS INTERNATIONAL CIVIL AVIATION POLICY REVIEW, MADE IT IMPRACTICAL TO HOLD THE TALKS AT THE SCHEDULED TIME. HOWEVER, THE USG LOOKS FORWARD TO HOLDING TALKS WITH THE AUSTRALIAN GOVERNMENT LEADING TO AN UNDERSTANDING NOT ONLY REGARDING THE ENTRY OF CONTINENTAL AIRLINES BUT ALSO, CONFIDENTIAL

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HOPEFULLY, ON THE NEW LOW FARE/COMPETITIVE ENVIRONMENT ENVISAGED BY THE RECENTLY ISSUED US INTERNATIONAL AVIATION POLICY.

3. BOTH US AIRLINES, PAN AMERICAN AND CONTINENTAL, SUPPORT THE USG'S POLICY ON LOWER FARES. IN STEP WITH THE GROWING INTEREST IN THE AUSTRALIAN MARKET FOR THIS TYPE OF LOWER FARE, PAN AMERICAN HAS TWICE FILED ITS "BUDGET" FARE WITH THE AUSTRALIAN GOVERNMENT. UNFORTUNATELY THESE FARES WERE DISAPPROVED BY THE AUSTRALIAN GOVERNMENT. CONTINENTAL'S REPUTATION AS A LEADER IN INNOVATIVE LOW FARES WAS ONE OF THE MAJOR REASONS IT WAS DESIGNATED TO SERVE THE SOUTH PACIFIC.

4. THE USG BELIEVES ITS COMPETITIVE LOW FARE POLICIES ARE BENEFICIAL TO THE CONSUMER PUBLIC AND ESPECIALLY TO THE TRAVELER AND SHIPPER OF THE SMALLER MARKETS WHOSE ABILITY TO USE AIR TRANSPORT HAS BEEN OBSTRUCTED BY ARTIFICIALLY HIGH COSTS. THESE POLICIES HAVE ALSO BENEFITED THE AIRLINES. THE COMMERCIAL EFFECT OF LOWER FARES AND A BROADER COMPETITIVE ENVIRONMENT WHERE THEY HAVE BEEN INTRODUCED IN THE NORTH ATLANTIC AND THE UNITED STATES HAS BEEN HIGHLY

FAVORABLE TO THE PARTICIPATING AIRLINES--BOTH THOSE OF THE UNITED STATES AND OF THIRD COUNTRIES.

5. IT IS EXPECTED THAT THESE POLICIES WILL HAVE A SIMILAR EFFECT IN THE PACIFIC AND THE USG HOPES ITS NEGOTIATIONS WITH THE AUSTRALIAN GOVERNMENT WILL BE THE FIRST STEP IN THIS DIRECTION.

6. USICA MAY ALSO WISH TO USE MATERIAL SENT SEPTEL ON US POLICY FOR CONDUCT OF INTERNATIONAL AIR TRANSPORTATION NEGOTIATIONS. CHRISTOPHER

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